THE EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCES OF SMALL AND MEDIUM ENTERPRICES IN SRI LANKA (WITH SPECIAL REFERENCE TO GAMPHA DISTRICT)

Uduwaka UHSM[1], Dedunu HH[2]
[1& 2] Faculty of Management Studies, Rajarata University of Sri Lanka
shalikauduwaka@gmail.com[1], dedunuharshani100@gmail.com[2]

ABSTRACT

Efficient financial management practices are considered as an essential mechanism for small and medium enterprises to gained profitability, survival, insolvent, growth etc. The objectivity of this study is to determine the effect of financial management practices of small and medium-sized enterprises (SMEs) in Sri Lanka on their financial performances. The study investigated financial management practices are through working capital management practices, investment management practices, financial planning practices, financial reporting and analysis practices and accounting information system. Financial performance is measured through return on assets and return on investment. In this study 60 of small & medium enterprises which operate in Gampaha district selected as the sample and personally administered questionnaire distributed among SMEs owners to collect the data. According to the correlation and regression analysis result of the study shows that there is a significant positive effect on working capital management practices on the financial performance of SMEs at the Gampaha district in Sri Lanka. It implied that increasing working capital management practices are a reason for improving the financial performance of SMEs. According to the findings, the researcher concludes that application and integrating financial management practices are reasonable for improving the financial performance of SMEs. The study recommended that owners of SMEs should pay high attention to financial management practices when it operates, formatting decisions and strategies and government and other regulated authorities should formulate appropriate policies and provide facilities for successful implementation of financial management practices in SMEs in Sri Lanka.

Keywords: Financial Management practices, financial performance, Small and Medium Enterprises (SMEs).

Introduction

The small and medium enterprise (SME) sector plays a vital role in the social and economic context in the world. Therefore, small and medium enterprises considered as the backbone of developed and emerging countries. Because of these enterprises plays a energetic role in the social and economic context in the world (Rathnasiri, 2015). According to Gamge (2004) SMEs are generate more economical benefits in any country among the generation of employment opportunities, contributing to the growth of Gross Domestic Production (GDP), promoting on innovations and other economic activities. The development of SME sector is extremely significant for any country by non-considering of their development level; because of SMEs have high capacity to produce maximum social and economic benefits to the country with a least investment (Rathnasiri, 2015). Therefore, for the emerging countries, improve growth of the SMEs was most important to achieve sustainable development within the country. Jayamaha & Karunananda (2011) explained small and medium-sized enterprises (SMEs) sector facilitated for improve growth and social development of Sri Lanka. According to the National Policy Framework for SME Development, (2015), SMEs in Sri Lanka identified as the strategic sector of the economy,

because of it accounts for more than 75% of the total number of enterprises, generate 45% of the occupation opportunities and promotes to 52% of the Gross Domestic Production (GDP).

According to the Kilonzo & Dennis, (2015) realized that financial management is managing financial resource to achieve financial goals and objectives of the organisation. Butt et al (2010) explained through the financial management certified that the effective and efficient utilization of economic resources in SMEs for archive their business goals & objectives. Hashim & Wafa in 2000 explained SMEs faced a different type of management problems. Among these management problems, financial management problems are taken major placed due to the owner- managers of SMEs had not sufficient knowledge about financial management and there were high uncertainty of business. Poor record-keeping, inefficient use of accounting information to make a financial decision and the low quality and reliability of financial data are the main problems in the financial management of SMEs (Jayamaha & Karunananda, 2011). According to the previous research studies which related to financial management and practices are identified the different kind of useful financial management practices for improving the business performance in SMEs. The previous research studies are suggested the firms should apply sound financial management practices to prevent the failure of the SMEs.

Further financial management practices positively effect on the performance of SMEs (Turyahebwa, et al, 2013). Through this survey observe the financial management practices and financial performance of SMEs in Sri Lanka. After completing the study, the result will indicate the effect of financial management practices on the financial performance of SMEs. Hence it may be interesting to study the effect of financial management practices on SMEs and this research is also an attempt to discover the relationship between financial management practices and financial performance of the SMEs in Sri Lankan context.

Problem Statement

There is more evidence about the many failures of SMEs in Sri Lanka. Sri Lanka's small and medium enterprises have break downed up to 25% over the past two or three years*. The Central Bank of Sri Lanka found the annual average growth rate of SMEs during the past decade was very low; 3.6 per cent (Annual Report, 1998). According to Annual Report (1998) explained the major problems that faced by SMEs sector in Sri Lank are inadequate capital, lack of institutional credit facilities, use of outdated technology, inappropriate accounting techniques, inadequate sales, promotion competencies and inattentiveness of small business. These problems are created inefficient business administration and operation, low level of knowledge, skills and experiences in the functions related to the accounting and finance in the SMEs in Sri Lanka (Gamge, 2004).

The poor financial management practices create misconducted operations and reduce the returns of the business (Kilonzo & Dennis, 2015). Dey & Des (2000) indicated that there is a wide gap between the theory and practices of financial management of the small and medium enterprise. Further scholars mentioned that small and medium enterprise owners' have less knowledge regarding financial management and recording procedure. There is less usage of the developed modern financial management tools and financial management theory by the small scale business (Dey & Des, 2000). Mazzarol et al, (2015) found SMEs used mostly informal and unplanned financial management practices in their business. The available literature is not sufficient to explain effect of financial management practice on financial performance of SMEs. There is no well-established relationship in the various financial management practices with the financial performance of SMEs. Through this study try to address this research gap and to answer the research problem; what are the effects of financial management practices have on the financial performance of SMEs in Sri Lanka?

* The Lanka News Paper.com

Research Objectives:

After completed the study the researcher expected to archive following key research objective.
Determine the effect of financial management practices on the financial performance of SMEs in Sri Lanka.

Literature Review

2.1 Working Capital Management Practices

In 2010, Czarnitzki & Hottenrott disclosed there is a concave relationship between working capital level and business profitability, and also which SMEs have an best working capital level that organization has maximum profitability level. Burns & Walker (2001) evaluated the working capital management by investigating small business in the USA. In this study considered working capital policy, managing working capital components, including cash, receivable, payable and inventory as the variables and relationships between working capital management practices and profitability in the SMEs without considering other facets of business efficiency. In 1980 D'Amboise & Gasse examined the application of inventory management practices in small shoe and plastic manufacturing businesses in Canada and result was 64 per cent of the shoe and 65.4 per cent of plastic businesses used formal inventory control methods. According to Grablowsky & Burns (1980) explained most of the SMEs were surplus of 30 per cent of their capital invested in inventory. The inventory management was invalid and six per cent of SMEs operated a quantitative technique like as economic order quantity for decide optimal inventory level, 54 per cent used methods but those not provide required information on inventory turnover, reorder points, ordering costs or carrying costs. Grablowsky (1978) and Grablowsky & Burns (1980) was found that cash management practices were inadequate in SMEs by considered with the cash management practices of 66 small firms from different business in Norfolk and Virginia. Their review indicated that 67 per cent of respondents didn't forecast the cash flows.

Cooley & Pullen (1979) surveyed cash management practices from 122 small businesses in the petroleum marketing and found 73 per cent of respondents had a cash surplus. Murphy (1979) indicated that active cash management practices in small enterprises in the UK were an uncommon thing and there was a slight trend to invest excess cash on temporary investment sources. Murphy (1979) view was opposed to the views from Grablowsky (1978) and Cooley & Pullen (1979). Grablowsky (1978) and Grablowsky & Burns (1980) found 95 per cent of businesses tended to sold goods on credit and only 52 per cent charged a late-compensation charge. Thirty-four per cent of industries hadn't proper practice for accounts receivable. Bad debts averaged 1.75 per cent of sales. Rathnasiri (2015) examined working capital management in SMEs in Sri Lanka by considering 60 of selected SMEs in Western Provision and found statistically significant differences between in the small and medium scale enterprises when implementing cash management, receivable and inventory management practices. Working capital management is a process of managing working capital components those included cash, receivable, payable and inventory in SMEs and used working capital policy to retain an efficient level of investment in current assets for obtaining their expected sales, performance and other goals (Kengatharan & Yogendrarajah, 2017).

2.2 Investment Management Practices

In 1995, Brigham indicated capital budgeting is most significant to the small organization than the large business because of difficult to access funds from the public markets for funding SMEs. In 2011, Graham et al surveyed in the USA and Canada and found that the present value techniques had been used by the number of firms for evaluating new investments. Also, to select an investment source, size of the company as the main indicator that considers by the company. Soldofsky in 1964 investigated 126 small manufacturing firms in Iowa and the findings of in this study was around 58 per cent of SMEs utilized payback period approaches and only 4.1 per cent used

accounting rate of return method for evaluate the new investments and making investment decisions. According to Block in 1997, examined 232 of small scale enterprises in the USA and found the payback method is the leading method for investment selection in small companies. Scott et al (1972) examined the capital investment appraisal techniques of 135 small manufacturing companies in the USA. The findings of the study were eighty-four per cent of respondents specified that some investments were essential for the short-run for their profitability. According to Peel & Bridge (1998) indicated that capital budgeting and planning positively impact on the performance of small industries. Most of SMEs utilized detailed strategic planning like as proper capital budgeting methods that including the net present value method for maximization of firm value. Sarapaivanich (2003) explained capital allocation in the small firms is most valuable because of inaccessibility to the capital market. Capital assets are comprised with large amount of money and capital budgeting decisions are influence on the business in more years. Effective capital budgeting is reason for increase asset acquirements (MUINDE, 2013). In 2000, Frankly indicated the review of new and existing capital investment projects is essential to the success of the small firm. The firm selected the project that have maximum net present value within a perfect market is reason for increased the value of the firm.

2.3 Financial Planning Practices

Myers & Majluf (1984) conducted a study based on the Pecking Order Theory (POT) that indicated there is no definite optimal capital structure. Barton & Maththews in 1989 evaluated characteristics of corporation's financing decisions behavior at the firm level and found that top management made decision regarding the capital structure by used in an open system context, and before form judgments should consider different objectives and environmental factors. In 1985, Pettit & Singer explained financing is the most problematic decision of the SMEs in the USA. According to Watson et al (1998) found external finance sources are more costly than internal finance bases. Berger & Udell (1998) explained most of SMEs are use and rely on bank loans because of difficult to access the finance from external sources. According to Ssendaula (2002), found factors that have discouraged banks from lending to SMEs. In 2002, Klapper et al investigated the financing patterns of 97000 private and publicly traded companies in 15 Eastern and Central European countries. Small business owners are managing their business by themselves and manage the business to survival. Therefore determination of finance source in SMEs is a difficult circumstance (Kilonzo & Ouma, 2015). In 2009, Thevaruban conducted a research study regarding the small business and its financial problems in Sri Lanka. The findings from this research were in Sri Lankan context SMEs are faced more challengers when obtaining finance from external parties caused by the low level of cash inflow and savings of SMEs. The researcher recommended bank and non-bank financial institutions do not from the hard condition on credit lending to the SMEs for the development of the SMEs in the Sri Lankan context.

2.4 Financial Reporting & Analyzing Practices

In 1980 D'Amboise & Gasse conducted the research study regarding the usage of financial reporting & analysis by small enterprises in Quebec, Canada and small shoe and plastic manufacturing companies properly used the analyses based on financial statements and the managerial decisions from those companies were basically constructed on the prepared financial reports. Lindecamp & Rice (1983) evaluated the financial reporting & analysis of 102 owner-managers of small retail business in Mississippi. According to the findings seventy-three per cent of SMEs investigated their cost statistics on a frequent or regular basis. Practically 60 per cent of respondents not keep up-to-date records that impact on profit of individual product or product ranges. Fifty per cent rarely or not ever compared their performance with industry facts and also over 50 per cent of respondents stated they did not know the implication of "debt/equity ratio" and 59 per cent hadn't idea about the significance of this ratio for their business.

DeThomas & Fredenberger (1985) found eighty-one per cent of the small business prepared summarized documents of financial information and also ninety-one per cent of kept summaries of information in the traditional financial statements like as balance sheets, profit and loss statements, equity distribution statements, and the remains were bank reconciliation and operating summaries of cash inflow information from non-regularly business activities. In 1987, Thomas & Evanson conducted a study to identify which were specific financial ratios used in small retail business by examined in 398 small pharmacies from Michigan, North Carolina, Nebraska, Rhode Island and Washington. In 1991, Nayak & Greenfield conducted survey to addressing the issues of West Midlands enterprises by analyzed what are the useful information for control small and micro business and utilization of this information and result was indicated that the cash book is the basic document of financial record but the main problem was the usage of this information made by the owner-manager in the SMEs.

2.5 Accounting Information System

D'Amboise & Gasse (1980) conducted a study to examine the application of formal management practices in 25 small sized shoe manufacturing companies and 26 small plastic manufacturing companies in Quebec, Canada. The result of this study was 88 per cent of the businesses operated a cost accounting system. The recommendations from the study related to the financial information system was ICPAU, ACCA Uganda, URA should promote the SMEs owners on the associated of bookkeeping, financial reporting and financial information of SMEs. DeThomas & Fredenberger (1985) found the standards of financial record-keeping was excessive by studying 360 small enterprises in Georgia, and around 92 per cent of respondents had some form of book-keeping regarding cheque and deposit receipts and also 96 per cent of the SMEs prepared financial statements, business had obligation for assessing and expending the information and only four per cent used an outside accountant services. In 1985 Farhoodmand & Hryck examined the most important applications of computers by the survey of 69 small enterprises in the USA. The result of this study was accounting had the highest percentage value. Palmer (1994) investigated 36 small retail business owners & managers. Through this study indicated 33 per cent of the businesses used computerized accounting systems. According to those result, the researcher dominated the utilization of computers system for accounting and financial management applications in small and medium companies in North America from the 1980s and 1990s.

Williams (1986) surveyed the competence of accounting records in 10,570 failed and surviving small enterprises in Australia. The results of the research were confirmation by Peacock (1985) and Peacock in 1987. The result of the research indicated owner-managers kept poor accounting records in significantly portion. Holmes (1987) examined necessities of accounting information from 928 small organizations in Sydney, Melbourne and Brisbane. The findings were fifty-seven per cent of SMEs used the journal/ledger (double entry) systems. According to this result, the researchers made an opinion; adequate financial records are significant for the performance of SMEs. In 2013 Azize evaluated the influence of Accounting Information Systems on firm performance in Turkish Small and Medium-Sized Enterprises. The findings of the study were the accounting information system has a positively influence on the performance of the SMEs. Belal (2013) examined the practice of accounting Information by Small and Medium Enterprises in the South District of Jordan and found decent accounting techniques will positively impact on effective procedures of small and medium business.

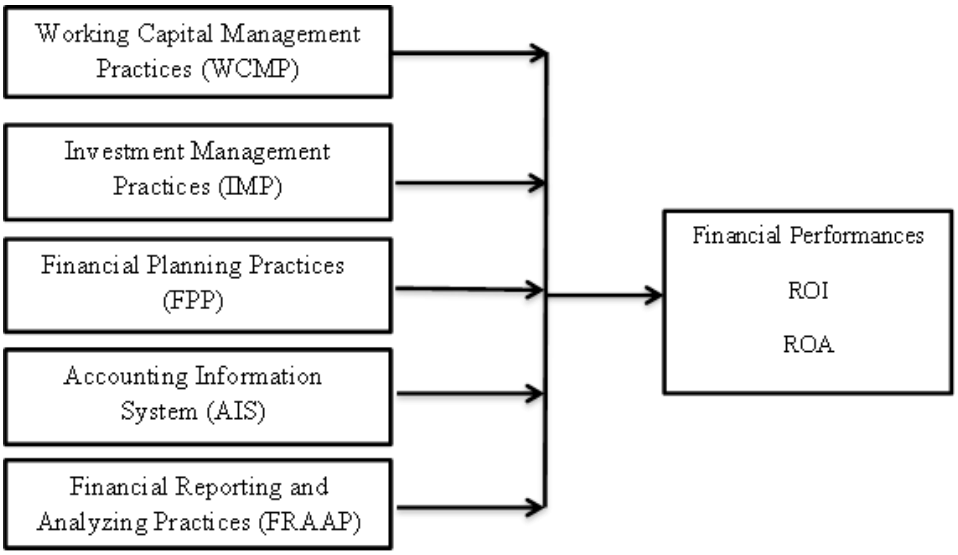
Methodology

This is a survey type of research study and the researcher utilized descriptive research design for this study. The population identified as manufacturing SMEs which located in Gampaha district in Sri Lanka. When considering the contribution of the economy of Sri Lanka, large percentages of SMEs are established in Western province. It represents 31%, 40%, 55% and 68% of establishment in micro, small, medium and large establishment of the

country (Economic Census 2013/2014, 2015). Therefore, Gampaha district selected as the population of the research study among three districts from the Western province because of by considering the number of manufacturing establishment and person's engagement of SMEs. It was 30,161 (12.5%) of manufacturing establishment and 249,793 (22.9%) of person's engagements respectively (Economic Census 2013/2014, 2015). Also consider the contribution of SMEs sectors, manufacturing sector selected for this study. Manufacturing industries are the leading wealth producing sectors of an economy, and they are essential for an economy because they generate a number of the employment force, and produce resources required by the national infrastructure and the other sectors of the economy (Economic Census 2013/2014, 2015). Therefore, SMEs in the manufacturing sector which locates in Gampaha district selected as the population in this study.

When considering the quantity of establishments, accessibility of data, time restrictions and the previous research studies done by local researchers like as Rathnasiri, 2015 and Kengatharan & Yogendrarajah, 2017, the study has been selected 60 SMEs which are functioning their businesses in the manufacturing sector from Gampaha district in western province as the target sample of this study through the simple random sampling method.The study used Primary data source through the personnel administrated questionnaire by using both open-ended and closed-ended questions with six-point Lickert Scales. (Addo, 2017), (Nguyen, 2001), (Kengatharan & Yogendrarajah, R, 2017), (Swarnapali & Rathnayaka, 2016).

Conceptual Framework



Methods of Data Analysis

Reliability & validity test, descriptive analysis, Pearson's correlation coefficient analysis and multiple regression analysis applied by the researcher to analyze the data in accurate manner by using SPSS (Statistical Package for Social Science) software.

Results and Discussion

4.1 Analysis of Demographic and Business Details

Table 1 Demographic Characteristic of the Respondents

Variable	Indicator	Frequency	Percentage (%)
Gender	Male	32	52.5
	Female	28	47.5
Position	Owner	49	83.1
	Manager	7	11.9
	Chief Accountant	2	3.4
	Other	1	1.7
Education Qualification	Ordinary Level	4	6.8
	Advanced Level	33	55.9
	Diploma	8	13.6
	Graduate	11	18.6
	Post Graduate	3	5.1

Majority (52.5%) of the respondents was males and females were 47.5%. The sample consisted with more male SMEs owners when compared to female SMEs owners. Majority of the respondents at 83.1% were owners of SMEs, 11.9% of respondents were managers in SMEs, 3.4% were chief accountant and 1.7% were others. According to that most common of respondents were owners of SMEs in the selected sample. Advanced level was the most common education qualification at 40%, after that university level education at 18.6% and then diploma level at 13.6% and 6.8% was ordinary level. The least was post graduate level at 5.1%. According to findings that can make the conclusion is a large percentage of the respondents were school level education and small percentages of respondents were professionally educated. Therefore can be concluded the majority of the respondents who have low education background are involved with the entrepreneur than the well-educated peoples. According to the findings of the study, majority of the SMEs were Textile, wearing apparel & leather related products (32.2%), and 28.8% were Food, beverage & tobacco products, 16.9% other products, 13.6% were wood, cork & all other furniture Products and 8.5% were other metallic Products. When considering the duration of operations majority (54.2%) of the SMEs had been in operation more than 10 years, 33.9 % of the respondents had been in operation for 6 to 10 years and 11.9% for 2 to 5 years. This indicated that widely held of the SMEs have operated for more than ten years, therefore they have experience in financial management practices in their business. The majority

(57.6%) of employees were between 6 & 50, then 16.9% were between 101 and 200 of employees, 13.6% of respondents had 51-100 of employees and 11.9% in below 5 of employee

4.2. Reliability & Validity

Table 2 Reliability Values

Variable	Cronbach's alpha
Cash management practices	0.610
Inventory management practices	0.670
Receivables management practices	0.726
Investment Practices	0.634
Financial Planning	0.651
Financial reporting & Analyzing Practices	0.696
Accounting Information System	0.694

According to the result implies that the Cronbach's alpha values gained for the variables were higher than 0.60. Therefore, reliable values for the variables are accepted. Because of that the research instrument was reliable and valid.

4.3 Base for Descriptive Analysis

Table 3.Mean Value Analysis

Mean Range	**Response Mode**	**Interpretation**
1.00-2.99	Disagree	Low
3.00-3.99	Slightly Disagree- Slightly Agree	Moderate
4.00-6.00	Agree	High

Source: Abanis, 2013

Table 4 Mean Value of Variables

Item	**Mean Value**	**Interpretation**
Cash Management	4.760	High
Accounts Receivables Management	4.621	High
Inventory Management	4.402	High
Investment Management	4.081	High
Financial Planning	3.600	Moderate
Financial Reporting & Analyzing	4.344	High
Accounting Information System	3.767	Moderate

According to table 4 cash management practice, accounts receivables management practice, inventory management practices, investment management practices and financial reporting had high level judgment in SMEs. Further financial planning practices and accounting information system had moderate level judgment in their business.

4.4 Descriptive Analysis

Table 5 Descriptive Statistics of the Financial Management Practices

Variables	Minimum	Maximum	Mean	Std. Deviation	Variance
Working Capital Management Practices	3.30	5.22	4.58	0.45	0.20
Investment Management Practices	2.89	5.00	4.08	0.49	0.24
Financial Planning Practices	2.33	4.33	3.60	0.44	0.19
Financial Reporting & Analyzing Practices	3.00	5.22	4.34	0.46	0.21
Accounting Information System	2.29	5.14	3.76	0.79	0.62
Return On Investment	55.00	79.80	69.65	6.06	36.84
Return On Asset	56.00	79.70	68.83	5.69	32.45

According to table .5, the positive mean, maximum, minimum values of working capital management practices are indicated that most of SMEs were on large extent of adoption in working capital management practices. Also the results indicated that there was SMEs which had adopted large extend of investment management practices. The positive minimum and maximum values indicated that there was SMEs had favorable attention on financial planning practices. According to the result that implied there was a positive and large extent of application in financial reporting and analyzing practices in SMEs. Result of accounting information system implied there was some of SMEs had high application of accounting information system, but mean value indicated that moderate level of application. However, maximum and minimum values in between positive range, therefore the researcher concluded that SMEs had favorable attention on accounting information system in SMEs. According to the descriptive statistics results maximum, minimum and mean value of financial performance was high and positive level. It indicated that most of the SMEs have favorable feelings regarding financial performance of SMEs.

4.5 Pearson's Correlation Coefficient

4.5.1 Pearson's Correlation Coefficient with ROI

Table 6 Pearson's Correlation Coefficient with ROI

		WCMP	IMP	FPP	FRAAP	AIS
IMP	Pearson Correlation	.682**				
	Sig. (2-tailed)	.000				
FPP	Pearson Correlation	.678**	.741**			
	Sig. (2-tailed)	.000	.000			
FRAAP	Pearson Correlation	.773**	.815**	.709**		
	Sig. (2-tailed)	.000	.000	.000		
AIS	Pearson Correlation	.781**	.751**	.820**	.818**	
	Sig. (2-tailed)	.000	.000	.000	.000	
ROI	Pearson Correlation	.358**	-.010	.161	.074	.148
	Sig. (2-tailed)	.005	.942	.220	.573	.259

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Data, 2019

According to table 6, all variables except investment management practices had positive effect on financial performance of SMEs. Improvement of these variables will improve the performance of SMEs and also all these variables were less significant except working capital management practices because their p-value were greater than the 0.05. It means all these variables should combine for make changes in the financial performances of the SMEs.

4.5.2 Pearson's Correlation Coefficient with ROA

Table 7 Pearson's Correlation coefficient With ROA

		WCMP	IMP	FPP	FRAAP	AIS
IMP	Pearson Correlation	.682**				
	Sig. (2-tailed)	.000				
FPP	Pearson Correlation	.678**	.741**			
	Sig. (2-tailed)	.000	.000			
FRAAP	Pearson Correlation	.773**	.815**	.709**		
	Sig. (2-tailed)	.000	.000	.000		
AIS	Pearson Correlation	.781**	.751**	.820**	.818**	
	Sig. (2-tailed)	.000	.000	.000	.000	
ROA	Pearson Correlation	.394**	.063	.200	.154	.191
	Sig. (2-tailed)	.002	.633	.126	.241	.143

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Data, 2019

As shown by table 7, all variables had positive effect on financial performance of SMEs. That is to say increasing of these variables will increase the financial performance of SMEs. Likewise all these variables were less significant except working capital management practices because their p-value were greater than the 0.05. All these variables should combine with each other for make changes in the financial performances of the SMEs.

4.6 Regressions Analysis

4.6.1 Consecutively Impact of Financial Management Practices on Financial Performance of SME (Model 1 with ROI)

Table 8 Model 1 with ROI

Model	R	R Square	Adjusted RSquare	Std. Error of the Estimate
1	.528[a]	.279	.212	5.38771

Source: Survey Data, 2019

According to the data, the adjusted R Square value is 0.279. This indicates that, there was a variation of 27.9% of financial performance of SMEs (ROI) due to changes in working capital management practices, investment management practices, financial planning practices, financial reporting & analysis practices and accounting information system at 95% confidence interval

Table 9 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	49.179	9.966		4.935	.000
WCMP	10.422	2.666	.782	3.908	.000
IMP	-4.869	2.679	-.396	-1.817	.075
FPP	2.878	2.947	.210	.977	.333
FRAAP	-3.161	3.285	-.240	-.962	.340
AIS	-1.085	2.006	-.142	-.541	.591

Source: Survey Data, 2019

The established regression equation was;

$$y = 49.179 + 10.422x1 \pm 4.869x2 + 2.878x3 \pm 3.161x4 \pm 1.085x5$$

Table 10 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	606.099	5	121.220	4.176	.003[b]
Residual	1567.483	54	29.027		
Total	2173.582	59			

Source: Survey data, 2019

According to the results the F (5.54) = 4.176, P < 0.05 is valid for further analysis. Significant level of 0.003 is lesser than 0.05 is explained the regression result were significant at 5% of significance level.

4.6.2 Consecutively impact of financial management practices on financial performance of SME (Model 2 with ROA)

Table 11 Model 2 with ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.502[a]	.253	.183	5.14802

Source: Survey Data, 2019

According to the data, the adjusted R Square value is 0.183. This indicates that, there was a variation of 18.3% of financial performance of SMEs (ROA) due to changes in working capital management practices, investment management practices, financial planning practices, financial reporting & analysis practices and accounting information system at 95% confidence interval.

Table 12 Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	45.338	9.523		4.761	.000
WCMP	9.176	2.548	.733	3.602	.001
IMP	-4.000	2.560	-.346	-1.562	.124
FPP	2.484	2.816	.193	.882	.382
FRAAP	-1.424	3.139	-.115	-.454	.652
AIS	-1.335	1.917	-.186	-.697	.489

Source: Survey Data, 2019

According to table 12 the regression equation was;

$$y = 45.338 + 9.176x1 \pm 4.000x2 + 2.484x3 \pm 1.424x4 \pm 1.335x5$$

Table 13 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	483.434	5	96.687	3.648	.006[b]
Residual	1431.114	54	26.502		
Total	1914.548	59			

Source: Survey Data, 2019

According to the findings table 13 evaluated the overall usefulness of the regression model. F (5.54) =3.648, P < 0.05 is valid for further analysis. According to the data significant level of 0.006 is lesser than 0.05 is explained the regression result was significant at 5% of significance level.

Hypothesis Testing

When considering the model 01 and model 02 findings, working capital management practices are significantly positively influenced on financial performance (Model 01: B= 10.422, (0.000) p < 0.05) and (Model 02: 0.001 p < 0.05) and B= 9.176. Therefore hypothesis (H1) indicated that there is a significant relationship between working capital management practices and financial performance of SMEs is proved. Investment management practice's p-value was (Model 01: 0 .075 > 0 .05 and B = -4.869) and (Model 02: 0.124 > 0 .05 and B = -4.000), which showed that there was no significant positive impact of investment management practices on financial performance of SMEs, therefore H2 was not supported. According to the findings of financial planning practices, (Model 01: 0 .333 > 0 .05 with B = 2.878) and (Model 02: B = 2.484 and p-value was 0.382> 0 .05), which explained that there was a positive impact of financial planning practises on financial performance of SMEs, but not significant. According to the result, H3 was not supported. According to the p-value of financial reporting & analyzing practices (Model 01: 0.340 > 0.05, B = -3.1610) and (Model 02: P= 0.652> .05 & B = -1.424) was which not significant positive impact of financial reporting and analysis practices on financial performance of SMEs. Therefore H4 was not supported. P-value of accounting information system was (Model 01: 0.591 > 0.05 with B= -1.085) and (Model 02: 0.489> 0.05 with B = -1.335), which not significant positive impact of accounting information system on the financial performance of SMEs, then a result also not supported to the hypothesis H5. Among all five hypotheses, only one hypothesis which there is a significant relationship between working capital

management practices and financial performances of SMEs was accepted and others were rejected under model 01 and model 02.

Conclusion and Recommendation

According to the research study findings, the researcher concludes that there exists a significant positive relationship with working capital management practices and financial performance of SMEs. Financial planning practices, investment management practices, financial reporting & analysis practices and accounting information system insignificantly effect to financial performance of SMEs. The researcher thus concluded that adopting and integrating of various financial management practices are improved the financial performances of SMEs (Nguyen, 2001), (Addo, 2017) and (Yogendrarajah & Kengatharan, 2017). The owner/ manager or any other authorized parties who from SMEs should put more emphasis on working capital management practices to improve the financial performance of SMEs.

The stakeholders like as Department of Small & Medium Enterprises, Ministry of Industry & Commerce, Banks and all other related institutions like Ceylon chamber of commerce, export board etc. should ensure and increase education on the need for financial management practices. This can be conducted through seminars, workshops, symposia and other mediums on the need to maintain efficient financial management. The government and other regulatory agencies like as capital markets authority should formulate policies and actions which raising funds of SMEs, develop on investment decisions like as to increasing returns on investment and management of investment decisions as well as monitor these investment decisions.

The government, other regulatory authorities and facilitators should involve with the SMEs and motivate the owners to utilize the computer software for financial management in SMEs and make programs to improve computer literacy from owners of SMEs. The government of Sri Lanka, other regulatory authorities and facilitators

should involve with the SMEs to move with new technology and apply new financial management methods and techniques as well as improve the financial management literacy.

References

Abanis, T., Sunday, A., Burani , A., & Eliabu, B. (2013). Financial management practices in small and medium enterprises in selected district in Western Uganda. *Journal of Finance and Accounting*.

Addo, I. K. (2017). The Effect of Financial Management Practices on Financial Performance of Top 100 Small And Medium Enterprices In Kenya. *Research project from School of Business, University of Nairobi*, 1-70.

Annual Report 1998. (1998). *Annual Report 1998.* Central Bank of Sri Lanka.

Barton, S. L., & Maththews, C. H. (1989). Small firm financing: implications from a strategic management perspective. Journal of Small Business Management, 1-7.

Butt, B., Hunjra, A., & Rehman, K. (2010). Financial management practices and their impact on organizational performance. *World Applied Sciences Journal*, 997-1002.

Cooley, P. L., & Pullen, R. J. (1979). Small business cash management practices.American Journal of Small Business, 1 - 11.

Gamage, S. A. (2003). Small And Medium Enterprises Development In Sri Lanka:A Review. 133-150.

Gamge, B. N. (2004). Promoting Small And Medium Scale Enterprises In Post Conflict Sri Lank:Challenges And Opportunities. *International Journal Of Business and Management Studies*, 357-364.

Grablowsky, B. J. (1978). Management of cash position. Journal of Small Business Management, 59 – 65.

Grablowsky, B. J., & Burns, W. L. (1980). The applications of capital allocation techniques by small

business. Journal of Small Business, 50 – 58.

Hashim, M. K., & Wafa, S. A. (2002). *Small & Medium Sized Enterprices in Malaysia, Development Issues.* Petaling Jaya: Prentice Hall.

Jayamaha, A., & Karunananda, U. G. (2011). Associations of Financial Practices and Performance of Small and Medium sized Enterprises in Sri Lanka. *ResearchGate*.

Kilonzo , J. M., & Dennis, O. (2015). Financial Management Practices on growth of SMEs:A case of Manufacturing Enterprises in Nairobi County, Kenya. *IOSR Journal of Business and Management (IOSR-JBM)*, 65-77.

Kengatharan, L., & Yogendrarajah, R. (2017). Financial Management Practices and Performance of SMEs in Sri Lanka:Evidence from Jaffna District. International Journal of Accounting & Business Finance, 61 – 72

Muinde, c. (2013). Relationship between financial reportingand analysis practices and financial performance of Small and medium enterprises in kenya. 1-58.

Myers, S., & Majluf, N. (1984). Corporate financing and investment decisions when firms have information that investors do not have. .Journal of Financial Economics 13, 187-222.

National Policy Framework for SME Development. (2015). *National Policy Framework for SME Development.* Ministry of Industry and Commerce.

Nayak, A., & Greenfield, S. (1991). Very Small Businesses, accounting information and business decisions: a question of definition. *14th ISBA National Small Firms Policy.*

Rathnasiri, U. A. (2015). The Financial Management Practices of Small and Medium Enterprises in Sri Lanka. *Global Journal of Contemporary Research in Accounting, Auditing and Business Ethics, An Online International Research Journal*, 374-399.

Turyahebwa, A., Sunday, A., & Ssekajugo, D. (2013). Financial management practices and business performance of small and medium enterprises in Western Uganda. *African Journal of Business Management, vol.7, no.38*, 3875-3885

Sarapaivanich, N. (2003). The use of financial information in financial decisions ofSMEs in Thailand. Proceeding of 16th Annual conference of Small enterprise

Swarnapali, R., & Rathnayaka, A (2016). Impact of Financial Management Practices on Financial Performance of SMEs in Sri Lanka: Evidence from Anuradhapura District. *Research Conference on Business Studies-2016 Vavuniya Campus of the University of Jaffna, Sri Lanka, pp.* 1-4

White Paper. (2002). *National Strategy For Small And Medium Enterprise Sector Development In Sri Lanka.* Small & Medium Enterprise Sector Development Program.

World Bank. (2014). *Facilitating SME financing through improved credit Reporting.* Report of International committee on credit reporting, charged by World Bank.